

Message Text

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ORIGIN EB-08

INFO OCT-01 EA-10 ISO-00 DODE-00 NSAE-00 ICA-11
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R 170019Z JUN 78
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TO USLO PEKING
INFO AMEMBASSY TOKYO

S E C R E T STATE 154415

E.O. 11652: XGDS-1

TAGS: ESTC, COCOM, PRC

SUBJECT: COLOR TV MANUFACTURING COMPLEX FOR THE PRC

1. DEPARTMENT WAS INFORMED BY ZENITH RADIO ON JUNE 16, THAT NEGOTIATIONS WITH PRC REPRESENTATIVES FOR THE SALE OF ZENITH'S COLOR TELEVISION PICTURE TUBE (CPT) MANUFACTURING COMPLEX; NOW STANDING IDLE IN PENNSYLVANIA, HAVE BROKEN OFF AFTER THE CHINESE REPORTED THAT THE PRICE OFFERED BY THE JAPANESE WAS CONSIDERABLY LOWER.
2. ZENITH, DURING THE LAST WEEK OF NEGOTIATIONS, ADJUSTED ITS PRICE FROM \$40 MILLION TO \$36.8 MILLION AS THE FINAL OFFER FOR THE NEARLY NEW FACILITY. ZENITH, IN ADVISING THE DEPARTMENT OF THE BREAK-OFF IN NEGOTIATIONS, INDICATED THAT IT CAN GO NO LOWER ON THE FINAL PRICE AND QUESTIONED THE CHINESE ON THE LOWER JAPANESE OFFER. THE CHINESE ARE REPORTED TO HAVE TOLD ZENITH THAT AFTER THE CONTRACT

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IS SIGNED WITH THE JAPANESE, IT WILL BE SHOWN TO ZENITH AS PROOF. -

3. DEPARTMENT ADVISED ZENITH THAT THE PRICE IT HAD QUOTED APPEARED TO BE CONSIDERABLY LOWER THAN WHICH HAD BEEN QUOTED BY THE JAPANESE. ONE DOCUMENT AVAILABLE IN THE DEPARTMENT INDICATED THAT IN MID-MAY HITACHI'S PRICE

FOR THE CPT PLANT WAS \$78 MILLION; TOSHIBA'S PRICE WAS LISTED AS \$100 MILLION. THE IC PLANT PRICE FROM HITACHI WAS \$30 MILLION WHILE TOSHIBA WAS QUOTED AT \$74 MILLION. ZENITH WAS NOT (APOACHED ON AN IC PACKAGE, ALTHOUGH WE UNDERSTAND RCA HAS BEEN QUERIED BY THE PRC. WE QUESTION WHETHER THE CHINESE ARE WILLING TO PAY AN ADDITIONAL \$50 MILLION TO OBTAIN AN EMBARGOED IC PRODUCTION SYSTEM SURREPTITIOUSLY FROM THE JAPANESE BY TYING IT TO A CPT PROCUREMENT.

4. ZENITH IS ANXIOUS TO UNLOAD THE FACTORY -- ONE OF THE MOST MODERN OF ITS TYPE -- SINCE IT CURTAILED PRODUCTION OF COLOR- TV. THE FIRM HAS AN ADVANTAGE OVER THE JAPANESE IN THAT IT COULD DELIVER ALMOST IMMEDIATELY, WHILE THE JAPANESE WOULD REQUIRE AT LEAST TWO YEARS TO PRODUCE A COMPLETE PRODUCTION SYSTEM. WE HAVE TOLD ZENITH THAT WE BELIEVED THE JAPANESE PRICES TO HAVE BEEN CONSIDERABLY HIGHER AND TO TAKE UP THE CHINESE OFFER OF "PROOF OF PURCHASE." SINCE THE CHINESE WILL BE IN THE U.S. ANOTHER WEEK, AND NO JAPANESE FIRM APPEARS TO HAVE CONTRACTED WITH THE PRC BECAUSE OF THE IC PLANT IMPLICATIONS, THE CHINESE MAY CONTINUE TO PLAY GAMES UNTIL IT ACQUIRES EITHER A CUT-RATE CPT SYSTEM, OR PAYS AN EXORBITANT FIGURE TO GET THE CPT/IC PACKAGE IT DESIRES. NEWSOM

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